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Lionberger, Isaac Henry

Passing it on

St. Louis

1920

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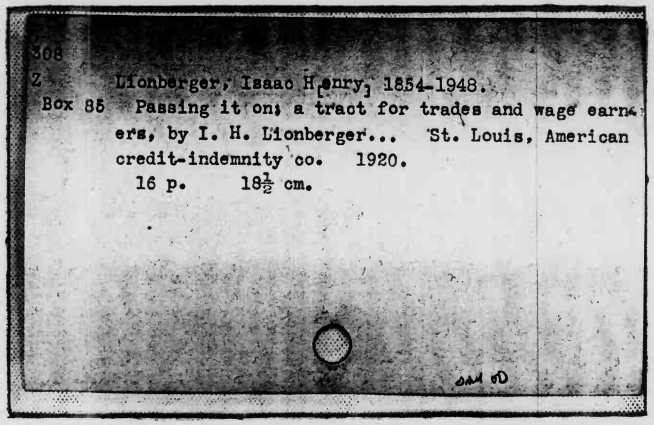
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Passing It On

A Tract for Traders and Wage Earners

By
I. H. LIONBERGER
CHAIRMAN AMERICAN CREDIT-INDEMNITY CO.

PUBLISHED BY
THE AMERICAN CREDIT-INDEMNITY CO.
ST. LOUIS, MO.
1920

To be had of the Company on Application.

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by
Isaac H. Lionberger
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21 July 1920 Jnw

PASSING IT ON

A Tract for Traders and Wage-earners

To keep well and strong, to support a family in comfort and provide for old age: these are the aspirations of men. The object of work is to achieve them. By work we get what we desire, more or less according to our capacities, energies and opportunities. Without work we must starve or live upon the charity of another. These truisms have been so for thousands of years; yet today men are beginning to question them. A new thing has been discovered, a new way to affluence. Prosperity seems now to proceed from idleness rather than work, and men deliberately contrive to produce not as many but as few goods as possible; and the amazing fact is that they do thrive by restricting production. What is the explanation of this fact?

If I am a gardener and live by myself upon a plot of ground, my prosperity must depend upon what I get out of it. If I produce much, I will have much; if little, little. It is equally true that if I raise potatoes and my neighbor keeps cows, I depending on him for milk and he on me for potatoes, neither of us can be better off as a result of restricted production. This principle holds

whether the community consists of A and B only, or of all the letters of the alphabet. Where there are 2 or 100 or 1000 members, and each produces 10 units of wealth, there will be more to go round than where each produces 5 units. More is more than less, and neither by trade nor otherwise can we escape the consequences.

This principle must somehow be reconciled with the fact that men do now get more for less work and fewer goods than they formerly got for more work and more goods. The miner who used to get $4 for 8 hours of labor and a certain output of coal, now gets $8 for 6 hours and a less output. So does the brick-layer and steel founder and farmer. All goods are scarce, yet many people seem amazingly prosperous.

The paradox is perplexing. We cannot find a clue to it in trade. Trade involves a reciprocal benefit. Its object is to exchange value for value, and no other advantage can be derived from it. The use of money may hide this fact but cannot avoid it. If I sell to another for $5 what cost me $3 and buy from the other for $5 what cost him $3, each of us may seem to have made a profit of $2, but neither is better off save in the sense that each has got what he wants.

By trade no one can get more for his goods than the goods are worth to another. Its transactions are always voluntary. Each intends to give no more than he gets. Where certain goods are scarce, the owner may for a time exact more for them, pound for pound or piece for piece, in other goods which are more plentiful, but he cannot thereby promote his own prosperity.

To prove this last proposition, let me revert to the gardener and milkman. If each produces 100 units of wealth, there will be 200 units for distribution; if one produces 100 units and the other 50, there will be 150. In the latter case there will be less for distribution; and this fact cannot be twisted to the advantage of him who produces 50, by any sort of trading, however cunning or rapacious it may be. This is my proof. If we assume that a unit of potatoes in the first instance is worth a unit of milk, and that an exchange is affected on these terms, after trading each will have 50 units of potatoes and 50 of milk. If in the second instance a unit of potatoes is worth ½ of a unit of milk, after trading each will have 50 units of potatoes and 25 units of milk, and it is obvious that by restricting production the milkman has gained nothing. Now let us assume that the farmer produces 100 units of potatoes and the

milkman 75 units of milk, and the latter, wishing to lose nothing, asks 50 units of potatoes for 25 units of milk. In this case the whole effect of restricted production seems to have fallen on the farmer: but, and this is the important point,—**the milkman has gained nothing.**

He has neither more potatoes nor more milk than he would have had if he had produced 100 units of milk; although he has hurt the gardener, he has not enriched himself. On the other hand, he has theoretically at least done less work. If however ease be his object and the fact become known to the gardener, the latter may adopt either of two courses; a, refuse to exchange 50 units of potatoes for less than 50 units of milk, or b, raise fewer potatoes. Either way he will inflict the same punishment upon the milkman.

Society however is never so simply organized. There are multitudes of producers all of whom are dependent upon each other, and under such circumstances it is obvious that bad men, backed by their fellows, may levy tribute upon their neighbors—for a time. If I have back of me a proper crew, I may practice piracy upon the high seas; if I have a monopoly of a necessity of life, like coal, I may ask what I wish for it; if I join a union whose object is to compel the community to pay

more for my services than they are worth and its power be great enough, I may exact what I please —for a time.

Such rapacity is however never profitable in the long run. The prosperity which results from artificial scarcity is less than that which can be derived from honest work and abundant production. Let me prove this principle.

1. Where certain goods are abundant and others, costing no more in human effort are scarce, and because they are scarce find an abnormally profitable market, everybody engaged in or who can engage in their production has a motive to produce as many as he can. For example, where I can make a profit of 50% by the sale of 100 articles, I have a motive to produce 200 in order that I may make more.

2. Where under the impulse of this motive more and more goods are produced and offered for sale, in the course of time a point of saturation will be reached beyond which the producer cannot sell his goods at such profit; and at such point the producer must adopt either of two expedients: a, curtail production; or b, sell for less. Of the two alternatives the latter is more profitable because, although a profit of 50% is more than a

profit of 40%, yet a profit of 40% on two sales is greater than a profit of 50% on one; and a profit of 10% on 101 sales is greater than a profit of 50% on two.

3. If acting upon this principle all traders resort to increasing sales by cutting prices, the prices of goods will tend to first approximate and then fall below cost, unless the goods can somehow be produced more and more cheaply as prices fall.

4. There are three ways of cutting cost: a, improving machinery; b, cutting wages; c, increasing output at the old wages. If any producer shall manage to solve the problem of cheaper production, others must either stop selling or adopt his expedient.

5. Increasing production is best for both the employer and employe, for thereby the former can retain his profits and the latter his wages; and both may enjoy a further advantage. All industries being affected by the same influences at the same time, what compels one to increase output compels every other, and as goods become more abundant and prices fall the purchasing power of wages or profits measured in goods must become greater.

If any is disposed to question the validity of the foregoing argument, he may be convinced by

consideration of a contrary series of influences and tendencies. Let me assume that goods are first abundant and then, by a gradual restriction of production, become more and more scarce, and attempt to ascertain the consequences to the producer.

1. Where certain goods are abundant because they cost little in human effort to produce them and the price is therefore low, the price can be put up by restricting production. Where all producers adopt this expedient, goods will gradually become scarcer, prices will advance and wages and profits will rise.

2. But as goods become scarcer and prices advance, the purchasing power of wages and profits measured in goods must fall—unless somehow wages and profits can be forced up faster than prices.

3. Wages and profits cannot be forced up faster than prices, because they cannot be realized save by a sale of goods at prices which will afford the wages and profits. To get $10 in wages and $10 in profits out of the sale of a pair of shoes, they must be sold for $20 plus cost of material etc.

4. There is however a price which the consumer cannot pay. Where one man might afford $100

for a pair of shoes, there are 1000 who cannot. Restricted production as a means to greater profits and higher wages must, by affecting the price, at some time kill the market for the goods, and thereupon restriction must become unprofitable both to employer and employe.

It is evident therefore that the prosperity which results from restricted production is less than that which results from abundant production.

The foregoing considerations may help us to understand the very perplexing situation which confronts us. The world seems topsy-turvy; something is obviously wrong. The servant is master of the household; tenants are obsequious and landlords imperative; sellers of goods condescending and buyers importunate; the hod-carrier dictates terms to the boss. Is it the day of the under-dog, are all the traditions of the past false and misleading, must everyone of us turn profiteer in order to get his share of the common stock?

I cannot agree with those who believe we are entering upon a new era controlled by new forces which are destined to restore to manual laborers the mastery of industry. What we observe is but a passing phase of the normal development of

the old system operating upon the old principles under new conditions.

Goods are scarce. The war lasting four years was excessively wasteful. While it lasted, millions of men were engaged in the destruction of goods other millions were engaged in producing. There are not enough goods to go around. Domestic production of goods needed for our own use has not only been curtailed, but imports have fallen off and exports have increased enormously. The nations abroad are worse off than ourselves, the tax upon their industry has been greater and the exhaustion of their resources more extreme.

To the evil of scarcity has been added the curse of extravagance. Millions of men have been enriched by the war. Everybody who had anything for sale made unheard of profits. Each demanded and got for his commodity twice or thrice what it cost. Riches easily won are being readily spent. Just when the supply of goods was least, the demand for goods became urgent. We are afflicted at the same time by scarcity and extravagance.

Under such circumstances prices advanced rapidly and the advance was unfortunately stimulated by the emission of billions of spurious money by the reserve banks, and by reason of these influences

business became incredibly profitable. Wages were advanced by leaps and bounds, and a new impulse was given to extravagance by the sudden enrichment of all workers. Prudence has been flung to the winds. Nobody cares what goods cost, for no matter how much they cost they can be sold for more. "Passing it on" has become a gospel among us, and none has paused to consider the consequences of his rapacity.

This is the explanation of the situation which confronts us. It is not alarming; it is not even perplexing. It presents nothing new but the violent operation of old principles to correct abnormal derangements. The evils to be corrected are evident: scarcity and extravagance. What we need is greater production and less spending. Production is being stimulated by the lure of undreamed of profits, and spending is being checked by the constant advance in prices.

An interesting and perhaps profitable illustration of the foregoing principles is afforded by the experience of Holland in February of this year. I quote from an article by Schweriner published in Littell's Living Age, May 1920:

"Last week panic reigned in Dutch financial circles. Today every financier and merchant in

Holland is inquiring how long will it last? They are frightened at their own wealth. That may sound like a paradox; none the less it is actual fact. The Dutchmen are so rich that every warehouse in the land is crowded to the roof with provisions and grain and other kinds of food, which are deteriorating rapidly. Hundreds and thousands of kegs of herring have spoiled.

"While I am writing, the Holland papers bring two items that speak for themselves. One is from Weesp: 'On account of the fall in the value of foreign currency, the famous chocolate factory of Van Houten has temporarily stopped operations.' The second comes from Vlaardingen and is to this effect: 'On account of the state of trade and the unpromising prospects of a revival, the Herring dealers' Union has been forced to cease operations. Its members have given fourteen days' notice of dismissal to all their employes.'

"Now the layman asks, Why don't the Dutchmen sell cheaper? It surely would be better than to let their goods spoil and shut down their factories and turn hundreds of men into the streets without employment. The answer is, the Dutchmen cannot sell cheaply. We might almost say that goods would be too dear if they went gratis, for wages are paid in guilders and guilders are

enormously high when reckoned in German money. Their purchasing power at home is so low that workingmen are paid tremendous wages. Nevertheless the fact is that vast quantities of provisions are going to ruin in Holland because they cost so much that customers cannot procure them. I have talked personally with a great number of wage earners here and I have found not one who did not say that he would prefer to have pre-war wages and pre-war prices rather than the present wages and the present prices. As a consequence, Holland trade is almost at a standstill, notwithstanding the fact that everyone here is eager to do business.

"So we are witnessing the old sight of a people hurried straight toward a catastrophe on account of their excessive prosperity."

I venture to add that "excessive prosperity" does not describe the condition of Holland quite accurately. Its case is typical of that of all profiteers the world over. Its trade with Germany during the war was enormously profitable, its money increased three-fold, prices and profits advanced rapidly, production and importation were stimulated, wages were put up and the cost of goods increased. Then the war ceased. Germany stopped buying and the market for goods

was arrested, production ceased, goods which could not be sold at cost rotted in the warehouse, men were thrown out of employment and the prosperity of which it had boasted came to an abrupt and shocking end. It does not matter whether goods be actually scarce in the sense that there are not enough to go round, or whether the price asked for abundant goods be so high that consumers cannot afford to pay for them: in either case the need of the community is cheaper goods, and that need must in time be satisfied either by price-cutting or increased production. That sort of profiteering which demands more for goods than they are worth, or produces less in order that more may be demanded, must be arrested; and it will be in time.

So will the profiteering of this and other countries end. Japan has already reached its catastrophe. Our day of reckoning is slowly approaching. We are following a vicious circle:—

Scarce goods, increasing profits;
Increasing profits, stimulated production;
Stimulated production, advancing wages;
Advancing wages, increasing cost;
Increasing cost, rising prices;
Rising prices, high cost of living;
High cost of living, declining demand;
Declining demand, falling prices;
Falling prices, unprofitable business;
Unprofitable business, arrested production;
Arrested production, falling wages.

Goods can never be sold for more than another can afford to pay for them. Fair trading is in the end more profitable than foul trading. In Holland, while food is rotting in the warehouses men lack enough to eat. High wages and exorbitant profits have not kept them from want and bankruptcy.

Scarcity is always the cause of trouble, and there is no sort of want so exasperating as that which results from the rapacity of the profiteer, whether he be employer or wage-earner. He asks more for his goods and services than they are worth and withholds from the market abundant goods in order that his demand may be enforced.

The high prices which restrict consumption and stimulate production in time of scarcity none should complain of; but high prices and high wages which result from artificial scarcity are wrongs which cannot be justified. Fortunately for the community, the consequences of such wrongs must fall in the end most heavily upon those who perpetrate them.

To make fewer goods in order to get more money
Is to pay more money and get fewer goods.

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